

**REPORT OF THE AUDIT OF THE
MAGOFFIN COUNTY
SHERIFF**

**For The Year Ended
December 31, 2009**



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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MAGOFFIN COUNTY SHERIFF

**For The Year Ended
December 31, 2009**

The Auditor of Public Accounts has completed the Magoffin County Sheriff's audit for the year ended December 31, 2009. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$4,598 from the prior year, resulting in excess fees of \$5,454 as of December 31, 2009. Revenues increased by \$10,596 from the prior year and expenditures increased by \$15,194.

Report Comments:

2009-01	The Sheriff Should Eliminate The \$25,394 Deficit In His 2006 Fee Account
2009-02	The Sheriff Should Eliminate The \$3,764 Deficit In His 2005 Fee Account
2009-03	The Sheriff Should Eliminate The \$24,158 Deficit In His 2004 Fee Account
2009-04	The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Charles E. Hardin, Magoffin County Judge/Executive
The Honorable Randall Jordan, Magoffin County Sheriff
Members of the Magoffin County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Magoffin County, Kentucky, for the year ended December 31, 2009. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2009, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 10, 2010 on our consideration of the Magoffin County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Charles E. Hardin, Magoffin County Judge/Executive
The Honorable Randall Jordan, Magoffin County Sheriff
Members of the Magoffin County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

2009-01 The Sheriff Should Eliminate The \$25,394 Deficit In His 2006 Fee Account
2009-02 The Sheriff Should Eliminate The \$3,764 Deficit In His 2005 Fee Account
2009-03 The Sheriff Should Eliminate The \$24,158 Deficit In His 2004 Fee Account
2009-04 The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Magoffin County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

August 10, 2010

MAGOFFIN COUNTY
 RANDALL JORDAN, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2009

Revenues

Federal Grants		\$	78,064
State Grants			28,800
State - Kentucky Law Enforcement Foundation Program Fund			14,231
State Fees For Services:			
Finance and Administration Cabinet	\$	78,877	
Cabinet for Health and Family Services		772	
Transporting Prisoners		<u>5,826</u>	85,475
Circuit Court Clerk:			
Sheriff Security Service		4,065	
Fines and Fees Collected		<u>4,230</u>	8,295
Fiscal Court			50,738
County Clerk - Delinquent Taxes			2,060
Commission On Taxes Collected			149,755
Fees Collected For Services:			
Auto Inspections		3,050	
Accident and Police Reports		382	
Serving Papers		17,000	
Carrying Concealed Deadly Weapon Permits		<u>2,834</u>	23,266
Other:			
Miscellaneous		1,213	
Interest Earned		81	
10% Add-On-Fees		<u>36,019</u>	37,313
Borrowed Money:			
State Advancement			<u>50,000</u>
Total Revenues			527,997

The accompanying notes are an integral part of this financial statement.

MAGOFFIN COUNTY
 RANDALL JORDAN, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2009
 (Continued)

Expenditures

Operating Expenditures:

Personnel Services-

Deputies' Salaries	\$	88,264
Part-Time Salaries		48,463
Other Salaries		80,564
UNITE Gross Salaries		78,598

Employee Benefits-

Employer's Share Social Security		27,231
Employer's Share Retirement		9,123
Unemployment Insurance		11,731

Contracted Services-

Advertising		205
Vehicle Maintenance and Repairs		14,464

Materials and Supplies-

Office Materials and Supplies		6,456
Uniforms		1,813

Auto Expense-

Gasoline		18,046
Radio		347
Pager		1,587
K-9 Expense		128

Other Charges-

Conventions and Travel		1,835
Dues		659
Postage		290
Deputy Expense		3,543
Bond		1,370
Miscellaneous		210
		<u>210</u>
	\$	394,927

Debt Service:

State Advancement		<u>50,000</u>
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Total Expenditures		<u>\$ 444,927</u>
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The accompanying notes are an integral part of this financial statement.

MAGOFFIN COUNTY
RANDALL JORDAN, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2009
(Continued)

Net Revenues	\$ 83,070
Less: Statutory Maximum	<u>74,088</u>
Excess Fees	8,982
Less: Training Incentive Benefit	<u>3,528</u>
Excess Fees Due County for 2009	5,454
Payments to Fiscal Court - February 25, 2010	<u>5,454</u>
Balance Due Fiscal Court at Completion of Audit	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2009 services
- Reimbursements for 2009 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2009

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent for the first six months and 16.16 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Magoffin County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1) (d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Magoffin County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 4. Unlawful Narcotics Investigations Treatment and Education (UNITE) Grant - Federal

The Magoffin County Sheriff participated in the UNITE grant program in 2009. This grant is designed to help law enforcement combat illegal drug use through a comprehensive campaign of investigation, treatment, and education. The Sheriff received \$78,064 in payroll reimbursements from the grant for 2009.

Note 5. Donation Account

The Magoffin County Sheriff maintains an account for the receipt of donations. These funds may be used for the operation of the Sheriff's office as established by KRS 61.310. The balance in this account on January 1, 2009 was \$2,888. During 2009, receipts of this account were \$31,219 and disbursements were \$2,541 leaving a balance of \$31,566 as December 31, 2009.

Note 6. Drug Account

The Magoffin County Sheriff maintains an account for the receipt of proceeds from the confiscation, surrender, or sale of real and personal property involved in drug related convictions. These funds may be used for the operation of the Sheriff's office in agreement with court orders. The balance in this account on January 1, 2009 was \$1,091. During 2009, receipts of this account were \$10,813 and disbursements were \$1,647, leaving a balance of \$10,257 as of December 31, 2009.

Note 7. High Intensity Drug Trafficking Area (HIDTA) Grant - State

The Magoffin County Sheriff participated in the HIDTA grant program in 2009. This grant is designed to provide additional federal resources to designated areas to help eliminate or reduce drug trafficking. The Sheriff received \$28,800 in reimbursements from the grant for 2009.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Charles E. Hardin, Magoffin County Judge/Executive
The Honorable Randall "Bob" Jordan, Magoffin County Sheriff
Members of the Magoffin County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Magoffin County Sheriff for the year ended December 31, 2009, and have issued our report thereon dated August 10, 2010. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Magoffin County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying comments and recommendations as item 2009-04 that we consider to be a significant deficiency in internal control over financial reporting.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Magoffin County Sheriff's financial statement for the year ended December 31, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2009-01, 2009-02, and 2009-03.

The Magoffin County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Magoffin County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, cursive script.

Crit Luallen
Auditor of Public Accounts

August 10, 2010

COMMENTS AND RECOMMENDATIONS

MAGOFFIN COUNTY
RANDALL "BOB" JORDAN, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2009

STATE LAWS AND REGULATIONS:

2009-01 The Sheriff Should Eliminate The \$25,561 Deficit In His 2006 Fee Account

Our review of the prior year audit report comments revealed the Sheriff has not eliminated the entire \$84,990 deficit for his 2006 fee account. The Sheriff has applied moneys from his donation account and has reduced the deficit to \$25,394. The remaining deficit is the result of \$1,822 in expenditures in excess of available revenues and an additional \$23,561 in disallowed expenditures. As of the audit date, the Sheriff has not personally deposited funds into the 2006 fee account to eliminate the deficit. We recommend the Sheriff deposit personal funds in the amount of \$25,394 to eliminate the remaining deficit in the 2006 fee account. It should be noted that unpaid obligations for 2006 could increase significantly based on the referral of the 2006 fee audit to the Kentucky Retirement System (retirement liabilities).

Sheriff's Response: None.

2009-02 The Sheriff Should Eliminate The \$3,764 Deficit In His 2005 Fee Account

Our review of the prior year audit report comments revealed the Sheriff has not eliminated the \$3,764 deficit for his 2005 fee account. The deficit is due to disallowed expenditures of \$3,614 for bank overdraft fees and \$150 for bank note late payments. As of the audit date, the Sheriff has not personally deposited funds into the 2005 fee account to eliminate the deficit. We recommend the Sheriff deposit personal funds in the amount of \$3,764 to eliminate the deficit.

Sheriff's Response: None.

2009-03 The Sheriff Should Eliminate The \$24,158 Deficit In His 2004 Fee Account

Our review of the prior year audit report comments revealed the Sheriff has not eliminated the \$24,158 deficit in his 2004 fee account resulting from unpaid liabilities. The 2003 tax account is due \$16,068 for the overpayment of tax commissions. When the Sheriff pays this liability, the funds will be used to pay taxes owed to various taxing districts. The largest amount is due the school district in the amount of \$12,140. The remainder of the deficit is \$8,090 due the county for excess fees. As of the audit date, the Sheriff has not personally deposited funds into the 2004 fee account to eliminate the deficit.

Sheriff's Response: None.

MAGOFFIN COUNTY
RANDALL JORDAN, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2009
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2009-04 The Sheriff's Office Lacks Adequate Segregation of Duties

The County Sheriff's office lacks adequate segregation of duties for receipts and disbursements. The Sheriff does not have adequate oversight of daily operations or monitoring of the financial activities. The Sheriff had delegated the financial duties to his office manager. The office manager collects receipts, maintains ledger, prepares all checks, and prepares reports and financial statements. Good internal controls dictate the same employee should not handle, record and reconcile receipts and disbursements. If the Sheriff cannot segregate these duties, he should implement steps to strengthen internal controls.

- The Sheriff should recount the daily deposits
- The Sheriff should compare the quarterly financial report to the receipts and disbursements ledger.
- The Sheriff should periodically compare invoices to payments.
- The Sheriff should compare the salaries listed on the quarterly report to individual earning records.

Sheriff's Response: With the limited funds our office has, it is hard to hire the staff to segregate duties the Sheriff does periodically compare invoices to payments and check the deposits & other reports.

